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SUBJECT: AS HIS POPULARITY PLUMMETS, PANAMANIAN PRESIDENT
TORRIJOS PROPOSES A 90-DAY "NATIONAL DIALOGUE" ON SOCIAL
SECURITY REFORM -- AN ANALYSIS

REF: PANAMA 1184

Classified By: AMBASSADOR LINDA WATT FOR REASONS 1.4 (B) AND (D).

SUMMARY

1. (C) Apparently surprised by the persistence of anti-CSS (Social Security) reform agitation following passage of a June 1 reform bill (see Reftel), and as one poll placed his approval rating at just over 20%, Panamanian President Martin Torrijos on June 16 proposed a 90-day social security reform "national dialogue." But anti-reform forces have refused to sit down with the government unless it "suspends" the new law, which Torrijos has ruled out. Simmering ill feeling left over from February's fiscal reform has multiplied the strength of CSS reform opponents and produced a defacto alliance between white collar professionals (teachers and physicians) and labor union radicals. The Torrijos government's present difficulties bespeak its political inexperience: it failed to consult widely leading up to the law's passage, rammed the law through the National Assembly on a party-line vote literally at midnight, and ran a poor public relations campaign to "sell" the need for reform. As a sign of how seriously he considers the current political situation, Torrijos canceled plans to attend a June 18-19 MERCOSUR summit in Asuncion, Paraguay, and sent Foreign Minister Lewis instead. End Summary.

A Dialogue, But No One Is Talking

2. (C) The 90-day National Dialogue on CSS reform, which President Torrijos proposed last week, is a toothless exercise designed to examine "substantive improvements" to the June 1 CSS reform law (known as law #17) and damp down the opposition. Torrijos's biggest problem may be finding someone to talk to. The loudest critics of CSS reform, the union-based "National Front to Defend Social Security" (FRENADESSO), have refused to participate unless the GOP suspends the new CSS reform law, which Torrijos has ruled out. On June 21 Archbishop Dimas asked Torrijos to suspend Law 17, supposedly to encourage dialogue with FRENADESSO, according to news reports. (Note: The recent CSS reforms increase employee and employer contributions, raise the retirement age, and stiffen eligibility requirements and are the first big changes in Panama's Social Security (CSS) system since the Endara government raised the retirement age in June 1991. Without them, the government claims, CSS would have gone bust within several years. The GOP claims the reforms will make CSS viable for 30-40 years. See Reftel. End Note.)

Strikes Enter Fourth Week

3. (SBU) As an "indefinite" strike by 25,000 teachers, 20,000 SUNTRACS construction workers, and 5,000 physicians and technicians entered its fourth week, the GOP hopefully announced the re-opening of elementary schools on June 20, but schools remain closed. Oddly, the GOP has been paying striking teachers and doctors all month, apparently in an attempt to maintain "goodwill" with respected professional groups, thinking the strikes would end soon. If that was the GOP's intent, it has backfired. With school children on forced vacation, and facing 25,000 canceled medical appointments (including 1,500 surgeries), ordinary Panamanians are beginning to clamor for an end for pay without work. The GOP intends to stop paying teachers as of the next pay period, (June 30).

GOP Miscalculates

4. (C) Comptroller General Dani Kuzniecky freely acknowledged June 16 to POL Counselor that the GOP had misjudged the length of the crisis that would surround the June 1 bill's passage and had failed to plan accordingly. He quickly added, "No other government would have fixed our fiscal deficit and CSS the way we did." Kuzniecky noted that

simmering discontent among well-heeled Panamanians over the February 2 fiscal reform, which (among other things) increased taxes for businesses and white-collar workers, contributed to anti-government feeling and encouraged the government's political opponents to unite. He expressed annoyance at the Panamanian Chamber of Commerce's reluctance to aid the GOP by taking a moderate stance and oppose the SUNTRACS radicals, apparently because it hopes the government's disarray will help it rescind part or all of the February 2005 tax increases. The private sector is happy at the government's discomfort, Kuzniecky said.

Strong Talk at the Camara de Comercio

15. (C) At a June 15 meeting, Panamanian Chamber of Commerce members were vehement in their denunciations of the GOP's February 2005 fiscal reform. The Ambassador pointed out that people who could pay taxes should pay and that the government needs money to operate. She urged them not to lose sight of the social dimension, as so many Panamanians live below the poverty line and suggested that perhaps it was time to move beyond the assumption that money paid to the government would be stolen. Although some agreed with that analysis, the group implied that they have every intention of trying to use the GOP's present difficulties to roll back as much of the fiscal reform law as possible.

Middle Class Backlash?

16. (SBU) Panama is one of the least taxed countries in Latin America. (In 2004 tax collections equaled only 9% of GDP.) Even so, Panama's middle class (white collar workers and independent professionals earning \$1,000-3,500 per month) are having a hard time adjusting to the one-two punch of fiscal and CSS reforms. Until February 2005, most Panamanian professionals paid no taxes at all on 30-50% of their income classed (for tax purposes) as "representational." Under the effects of February's fiscal reform and June's CSS reform, white-collar workers will lose 12-20% percent of their gross income to taxes. Making matters worse, Panama's consumer-oriented, status-conscious middle class has no culture of saving, typically drive late-model cars, and send their children to pricy private schools. The new taxes are a bitter pill, one that brings unwelcome belt-tightening and forces lifestyle changes.

"Rejection Front" Bids for Political Power

17. (C) Aside from the GOP's credibility, also at play amid the maneuvering are the future prospects of SUNTRACS leaders Genaro Lopez and Saul Mendez, and former CSS boss Juan Jovane. The three "Rejection Front" leaders hope to leverage a national political role out of the disorder but they could well emerge with less influence rather than more. SUNTRACS recently began canvassing donations after it said its \$2 million strike fund was exhausted, following \$50-per-week payments to its striking members. Comptroller General Kuzniecky told POL Counselor June 16 that Juan Jovane is "fully dedicated" to the idea of building a party. Behind the "masquerade" of FRENADESSO, Kuzniecky claimed, are people who are trying to destabilize the government. President Torrijos echoed this assessment in his June 21 meeting with DEA Administrator Karen Tandy, asserting that the movement would be a political party vying for the presidency in 2014.

Comment

18. (C) The political inexperience of technocrats in senior positions is beginning to show. In its handling of CSS reform (and in its earlier handling of fiscal reform), the Torrijos administration was guilty of pursuing good public policy but bad politics. In both instances the GOP showed commendable political will to tackle festering problems, knowing in advance that they would prove unpopular. But in neither case did President Torrijos stump the country looking for support, carry out a real public relations campaign, or present any intelligible, over-arching strategy of his economic vision. Public reaction was worse and more enduring than the government expected, and the government took more than its share of political lumps.

19. (C) Some observers fear the GOP has spent so much political capital that it may lose the referendum on Canal expansion planned for 2006. Others claim that average Panamanians will see that the Canal widening project is Panama's best chance for prosperity and job creation and will approve the referendum by a wide margin. The reality is that the overwhelming majority of Panamanians, many of whom are not covered by social security, and who struggle just to find money to ride the bus to work each day, don't care about the macroeconomic debates on tax increases, free trade agreements, and Canal expansion. Fully one million

Panamanians (out of 2.9 million) are not covered by social security. To win those people over, the GOP will have to find ways to benefit them directly. Its plans for public transportation reform would help. The GOP's success in creating jobs will be its litmus test.

WATT